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Date: 14 February 2011

Dear Steve

Review of Metering Arrangements – Initial Findings and consultation on proposed metering industry remedies (ref 162/10)

CE Electric UK Funding Company (CE) is the UK parent company of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL).

In August 2010 we responded to Ofgem's request for information titled 'Review of current metering arrangements' (ROMA) in terms of our roles as both a distribution network operator (DNO) and an electricity meter asset provider (MAP).

We welcome your initial findings from ROMA and the proposals you have set out in your further consultation dated 17 December 2010. We have some views on your findings in relation to commercial interoperability that are set out in this response along with, where relevant, answers to the specific questions you have asked within the consultation.

Commercial Interoperability

We welcome Ofgem's recognition of the benefits of commercial interoperability and agree with the high-level thinking. We believe that commercial interoperability is essential as we move towards a new smart-meter market and clear policy decisions should be made now to ensure that as far as possible no smart meter needs to be replaced prematurely due to interoperability issues.

We believe that it is essential to have a clear policy on interoperability to ensure that all suppliers, including vertically integrated and small suppliers alike, have similar access to meters. Under the current smart proposals we do not believe that access to smart metering assets will be guaranteed for all market participants due to potential commercial interoperability issues, which may dissuade potential commercial meter asset providers (MAPs) from entering the market until there is more certainty over the commercial arrangements. We consider that this issue should be addressed now to increase market confidence for potential MAPs and improve market access for small suppliers to assist them in becoming early smart movers alongside larger supply companies.

In the current electricity metering market we agree that competition in both meter operations and meter asset provision has worked well, although we do not agree that suppliers are necessarily always in charge of key investment decisions. Whilst some larger suppliers may be establishing funding arrangements for smart meters (and conventional meters ahead of the smart-meter rollout)

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it is clear that independent MAPs currently play a key role in funding metering hardware for both large and small suppliers and are likely to do so in the new smart world. If this is extended further to MAPs funding meter installations, it is clear that independent MAPs not only play an important role in key investment decisions but also facilitate market access.

We believe that standardisation of the structure of metering charges could improve transparency and reduce costs within the market. However, significant further work is needed to ensure that the benefits of the various options available are fully understood and evaluated and to ensure that commercial interoperability is incentivised by the structure adopted. We believe that it is important that the current distinction between MAPs and meter operators (MOPs) in the electricity market is maintained and supported by the structure of metering charges. The separate role of MAP encourages the entry of new parties into the market, which in turn encourages competition in the provision of meters and keeps prices low.

We welcome your approach that commercial interoperability for smart metering will be considered further in the forthcoming smart metering package of consumer protection measures and we look forward to the publication of this package in the near future.

We have provided further views on commercial interoperability in response to your questions within chapter 2 of the consultation document. These are set out in appendix 1.

If you would like further clarification of any aspects of our response, please contact me as we are keen to have further opportunities to share our thoughts with you.

Yours sincerely

Chris Allanson
Market Strategy Manager

APPENDIX 1

Responses to questions in chapter 2 – Consumer Protection, Commercial Interoperability and Metering Agents

Questions where we have views and further information are shown below. Any questions which we have no response to have been omitted.

Q2: Do you have any views on our assessment of commercial interoperability?

We strongly agree that it is totally inappropriate for customers to be faced with a meter exchange each time they change supplier. We believe that this would add significant unnecessary costs into the market that would eventually be borne by the consumers. To avoid this, effective commercial contracts must be in place between all parties operating in the market.

We believe that the best mechanism to achieve this would be allow parties to reach their own standardised commercial arrangements where possible, but also to provide meter asset provision default terms under the governance of the DCC which would apply, when required, if there was no bilateral agreement in place between two parties.

The structure of metering charges is an area where we believe more work needs to be carried out to establish the most appropriate structure for both the conventional and smart metering markets. In particular the issue of whether installation costs should be amortised should be examined in more detail with a focus on what incentives this approach gives for meters to be left in situ upon events such as change of supplier. We believe that the up-front payment of installation costs by suppliers currently provides an effective disincentive to suppliers to change meters without clear technical justification. We also believe that the up-front payment of installation costs by suppliers to their meter operator is compatible with the clear demarcation of the roles of meter asset provider and meter operator in the electricity market.

The consultation paper outlines 2 options for meter pricing structure, but we believe that there is a further option that also merits further consideration, as follows:

	Benefits		Market Features
	Supplier	MAP/MOP	
Option 1 – transactional installation charge (up front)	Reduced scope to recover installation costs when a customer churns.	The appointed MOP receives payment at time installation work is completed from the supplier. MAP receives standard meter rental income only.	Meter pricing is transparent and unaltered by customer churn.
Option 2 – amortisation of installation charge over meter life	No requirement for supplier to recover installation costs on customer churn.	MOP needs to recover installation charge funded by a party willing to amortise this cost. This may be a MAP, MOP or other third party. MAP retains standard meter rental income only.	If a meter is removed prematurely there will be an element of under-recovery of the meter installation cost that needs to be considered. If the meter is then reinstalled elsewhere there will be additional installation costs to be recovered, thus increasing the rental price of the meter and potentially re-introducing lack of transparency into the market.
Option 3 - amortisation of installation charge over meter life with termination charges on early meter removal	No requirement for supplier to recover installation costs on customer churn.	MOP needs to recover installation charge funded by a party willing to amortise this cost. This may be a MAP, MOP or other third party. MAP retains standard meter rental income only.	If a meter is removed prematurely then any element of unrecovered installation cost could be recovered from the outgoing supplier via a termination fee. The termination fee may also need to include an element of the next installation fee so that the re-installation cost amortised provides a consistent meter rental charge throughout the meter's asset life, thus allowing market transparency.

We believe that all these options merit further investigation and analysis to establish which option best provides the appropriate incentives for effective operation of the market, ensures interoperability and creates pricing-structure transparency.

We believe that a common charging structure will enable the market to be more transparent and operate more smoothly upon change of supplier as there should then be certainty over the level of charges faced when a supplier takes on a new customer.

We also believe that the provision of a central meter-asset register for smart meters within the initial scope of the DCC would provide an excellent mechanism to enable the smooth interoperability of smart meters rather than looking to introduce such a register at a later date.

In summary, we agree that standardised contractual terms should be introduced to all parties. Default terms should be provided under the DCC, which would enable smaller parties to participate equally in the market. We also agree that the structure of metering charges could be standardised and ask that further investigations in this area look carefully at the incentives / disincentives the available options might introduce for suppliers to remove meters prematurely and also recognises the distinct roles of meter asset provider and meter operator. We would also strongly support the development of a smart-meter asset register within the DCC at the earliest opportunity.

Q3: Please provide any evidence you have of meters that were removed unnecessarily due to incompatible commercial arrangements

Although we are unable to provide any direct evidence within this response we are aware that fully functioning conventional meters, owned by CE, are regularly removed upon change-of-supplier events for meters with the same functionality. This approach is particularly prevalent in the prepayment meter market where we regularly see meters changed to ensure that the customer is able to vend with the new supplier even though the new supplier is using the same vending technology as the previous supplier.

Q4: What are your views on whether a single commercial model is needed? If so, is this something that industry should seek to develop?

We fully support the concept of a common meter-asset provision framework and believe that this should be incorporated within the start-up scope of the DCC rather than being incorporated at a later date. This would provide smaller suppliers with access to smart meters on equal terms with the vertically integrated supply companies.

We also support the standardisation of a meter-charging structure although further detailed analysis is needed in this area to establish the most appropriate model to use for smart meters. This area needs to be reviewed as soon as possible to ensure that agreement is in place prior to the main rollout of smart meters.